

Chapter.4 FDI for Sakhalin Projects and Potentiality of the Housing Industry¹

Department of Commerce Jemin Lee

North East Asia is the most promising region in the world for its potential economic growth for the 21 century. There has been continuous debate whether this area could be considered as the Natural Economic Territory (NET). The pros (Kanamori, 1995) emphasize the fact that this region has the huge endowment of the economic factors: Japan's rich capital and advanced technology, South Korea's intermediate technology and fast accumulating commercial expertise, Northeast China and North Korea's stable supply of labor, and the Russian Far East's enormous natural resources. The cons (Ku-Hyun Jung, 1995, T. Akaha, 1997), however, criticize that social and political dissimilarity would not allow the complementary economic development of this region. The foremost negative factor is the legacies of prewar and wartime history of Northeast Asia. The hostilities and animosities that Japan's aggression and colonization had bred do not be still erased in most Korean people. Also the territorial disputes such as the Northern four islands between Russia and Japan works as psychic barrier to build a keen relationship among the member countries. The political instability of North Korea and Russia and the recent economic crisis (especially the foreign currency crisis) in Japan, Korea and Russia also renders a shadow over formulating a true partnership.

Despite these concerns, the projects to develop the oil and natural gas offshore production in the northern area of Sakhalin draw global attention for its potentiality of a huge economic spillover effect in various industries. The main reason for such attraction is the world class size of the potential oil and gas reserves. Rough estimation for potential oil and gas reserves of Sakhalin I amounts 666 million equivalent metric tons (or 5 billion oil equivalent barrels) which is 2.5 times bigger than oil production of Alaska. The problem, however, is the fact that it requires a capital investment of more than US \$15 billion.

The purpose of this paper is to find out the potentiality of economic ties between the member countries, especially on the local for local basis. In order to clarify this, the

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author focuses on the housing industry of Sakhalin and attempts to point out the barriers for successful cooperation between Sakhalin and Hokkaido (which is the closest neighboring region.) Before discussing this point to be argued, let us briefly look at the prospects of current situation of oil and gas exploitation in Sakhalin.

1. Prospects of Sakhalin Projects

(1) Sakhalin I

Sakhalin I was originally formed as a joint project between Russia and SODECO in 1974. In 1995, two local Russian firms Rosneft(17%), and Sakhalin Moreneftegas (SMNG,23%) and Exxon(30%) were invited to organize a consortium with SODECO (30%). The consortium is striving to establish commercial oil from Arkutun-Dagi area and natural gas in Chayvo field after Profit Sharing Agreement(PSA) which defines an exploration program and how production revenue will be shared between the state and the consortium(if exploration is successful) was declared effective in June 1996. (M. Yamamoto, 1998)

Exxon, project operator of the consortium, is currently evaluating the early oil development phase in Arkutun-Dagi and commercial oil production would be expected to start from in the year 2000. An ice-resistant platform was established to produce at least 67 million metric tons (over 500 million barrels) of oil with a peak rate in excess of 5 million metric tons per year. Later development phase shifts to produce gas in Chayvo and Odoptu field. The Chayvo field is estimated to have a potential resource of 226.5 billion cubic meters and Odoptu with another 200 billion cubic meters. But the latter depends upon securing a suitable gas market and defining an efficient transportation system.

(2) Sakhalin II

The main developer of the Sakhalin II is Sakhalin Energy Investment Company which was jointly invested by Marathon(37.5%), Shell(25%), Mitsui (25%) and Mitsubishi(12.5%). Sakhalin II project also got the PSA approval in Dec. 1995 and

declared to be effective in June 1996. Similar to Sakhalin I, Sakhalin II is working an early development of oil in Piltun-Astohskoye field and later for gas in Lunskoye field. The estimated reserves for oil is 9.45 million-ton(750 million barrels) and 455 billion cubic meters of gas.

The final development plan would be reported to the Russian government in June 1999, however, it is expected that commercial oil to be produced even sooner than the project I. In order to produce oil on commercial basis the consortium already finished its contracts to build the necessary facilities with the foreign companies. For instance, molikpaq, which is a mobile platform for drilling oil, was to be reformed with iron box with Daewoo Shipbuilding Co. of Korea. The total amount of the contract is 35 million US dollars. The contract to establish the floating tanks was finalized between Sakhalin Moreneftegas and Swedish and Swiss companies for 100 million dollars. The American Town projects to provide the houses, business hotel, a shopping center, a gymnasium and the park is already undergoing its construction in Yuzhno Sakhalinsk under the tight security. (The project will be explained in detail later on.) The joint venture firm between the Russian company called Sfera and a Nebraska-based US company, Iocca is undertaking the construction. As far as shipping and material handling business is concerned, US company called EN Trading and the port terminal of the Kholmsk jointly attained the rights to do business. Therefore, the main port for the Sakhalin II became Kholmsk, while Korsakov for Sakhalin I.

Although the final approval for PSA was not yet signed by the Russian government Sakhalin III and IV are also carrying out their plans to be realized. For Sakhalin III, Exxon Neftegas Ltd., Mobil Ventures Inc. and Texaco Exploration Sakhalin Ltd. already won the right to explore in July 1993. Currently these major companies are looking for the Russian partner firms and are able to start drilling at East Odoptu field early as in the year 2000.

(3) Two Problems Should be Addressed

① PSA and the Local Contents

Profit Sharing Agreement is a method to secure a return on investment by sharing of profits between the Russian government (both local and federal) and the consortium that has the right to explore. PSA, thereby acts as the basic law and regulations over

the consortium, the project operator and the subcontractors. In the Agreement states to give the first priority to the local firms in case of equivalent price/quality conditions. This local contents rule naturally acts as both physical and psychological barrier for the Western companies to actively involve in the project. PSA also includes the accumulated funding to support development of Sakhalin State. An annual amount of funding is 20 million US dollars from both project I and II and the accumulation continues until 5 years to reach the total amounts of 1 billion US dollars from each.

② Gas Pipeline and LNG

In Japan natural gas is highly esteemed for its clean environmental reason to be used alternatively of oil and gasoline. A wild idea to prolong the gas pipeline from Siberia or Sakhalin through under the sea to Hokkaido and mainland of Japan (and even to other neighboring countries like Korea and China) was always dreamed of. However, Sakhalin II emphasizes its exporting gas in LNG, while SODECO of project I does not specify how to sell its gas produced. The state of Sakhalin plans to build a gas pipeline from Okha to Prigorodnoe(right near the Korsakov port) and liquefy its gas to export. Here are some of the facilities planning to be established by the state of Sakhalin.

TABLE 1

Facilities	contents	estimated prices (in thousand dollars)
Oil stability facilities	annual 25.9 million tons	182,000
Oil handling terminal	annual 25.9 million tons	285,000
Gas liquefying plant	3 million tons × 3 blocks	3,130,000
LNG handling terminal	annual 9 million tons	782,000
Gas condensed separation	annual 3.8 million tons	166,000
Oil pipeline	620 km	969,000
Gas pipeline	620 km	1,120,000

As discussed above, there are still several issues and problems to be solved in order to get the real economic benefits from oil and gas exploitation in Sakhalin. Especially for the many Japanese firms investments in Sakhalin are being considered to be the highly risky business. But many US and Canadian companies seem to start out their business without much pain. One can still argue that they are mostly worldwide known major companies like Exxon and Mobil who are able to overcome these barriers . But is

it really true that small and medium sized local firms from neighboring Asian countries have no chance to do business in Sakhalin? The answer is otherwise. Rather, it is the very risky business environment that renders business opportunities to the small local firms of Hokkaido. In order to argue this point housing industry of Sakhalin needs to be analyzed thoroughly.

2. Housing Industry in Sakhalin

(1) Sluggish Growth

Before going into details of the housing industry, let us have a quick glance of the current economic situation of Sakhalin. The data shows that the total productivity of the region increased from 76.6% in 1995 to 95.8% in 1996, however, in 1997 it dropped to 87.4%. Investment on facilities also decreased from 91.9% in '95 to 72.3% in '96 and 73.9% in '97. Household construction rate also sharply dropped during these years. Both the years 1996 and 1997 only reached the half of the previous year's performance. (F. Oda, 1998)

TABLE 2 Basic Index of Sakhalin Economy

(rate over previous year, %)

	1995	1996	1997*
Total productivity	76.6	95.8	87.4
Industrial products	108.8	86.2	98.2
Investment on facilities	91.9	72.3	73.9
Household construction	92.7	45.3	57.0
Household construction (1000 m ²)**	138	62.6	12.9

* The year 1997 refers only from Jan. to May

** total area of the household construction in thousand m²

Source: Statistics Department of the Sakhalin State

TABLE 3 Household Ownership

(%)

Type of household ownership	1995	1996
Private ownership	24.9	30.0
Government ownership	16.5	16.5
Communal ownership	56.4	51.9
Others	2.2	1.9
Total	100	100

Source: Statistics Department of the Sakhalin State

Table 3 shows different types of household ownership in Sakhalin. One can notice that the private ownership of the households only consists 30% of the total, but this rate is increasing. The total area of the households in Sakhalin is 11.64 million m^2 in 1996. The total space per person is 17.8 m^2 . If there are 4 person in each family, each household accounts roughly about 70 m^2 on the average. According to the Japanese White Paper on the Construction '97 an average space of the household in Japan is 91.9 m^2 . Therefore one can conclude that the people in Sakhalin live in a very small house, even smaller than the rabbit hutch of Japan.

As mentioned above, household construction in 1996 was only half of that in 1995. (The total area of household completion is 62,600 m^2 .) The Table 4 shows in detail.

TABLE 4 Completed Household Construction in 1996

type of households	total space in m^2	rate over previous year(%)
Federal state ownership	5,746	48.7
Sakhalin state ownership	2,066	21.2
Communal ownership	9,554	17.5
Private ownership	14,643	82.5
(individual ownership)	12,363	126.9
Shared ownership	16,775	38.1
Small company ownership	13,809	N/A.
total	62,593	45.3

Source: Statistics Department of the Sakhalin State

The number of the households constructed in 1996 was only half of that of 1995, due to the sluggishness of government or community driven supplies. However, it needs to be noticed that the number of the private households constructed were increased 27% in 1996. Total number of houses built in 1995 was 2,164 and 898 in 1996. But the same number of the private owned houses increased from 88 in 1995 to 100 in 1996. The average space of these houses also increased from 63.8 m^2 in 1995 to 69.7 m^2 in 1996.

Table 5 shows that housing industry, although dropped form 17.8% in '95 to 8.9% in '96, is still considered very important. The rank of the biggest investment ratio goes from manufacturing, transportation and housing in that order. In this sense, housing industry is third important industry in Sakhalin.

Finally, let's look at the privatization of households in Sakhalin. The number of the privatization occurred in Sakhalin is 13,297 in '95 and 8,305 in '96. The accumulated sum of the privatization became 72,519, which are roughly about 30% of the plan. Therefore, it is expected that this privatization continue to be increased in near future.

TABLE 5 Industrial Investment Ratio

(%)

	1995	1996
manufacturing	41.3	43.4
agriculture	6.1	6.0
forestry	0.2	0.1
construction	1.1	1.7
transportation	20.4	24.0
communication	2.0	4.8
commerce	N/A.	1.2
housing	17.8	8.9
infrastructure	6.2	4.9
others	4.9	5.0
total	100	100

Source: Statistics Department of the Sakhalin State

TABLE 6 Privatization of the Households

	number of privatization (1995)	number of privatization (1996)	area of privatization in 1996 (k m ²)	accumulated sum of privatization
Sakhalin State	13,291	8,305	385.7	72,519
Yuzhno Sakhalinsk	N/A.	2,618	120.1	18,891

Source: Statistics Department of the Sakhalin State

As discussed above in detail the housing industry in Sakhalin has both dark side and bright side. Especially the recent currency denomination in Russia has been working as a strong negative impact on the economy as a whole. However, the fact that most people in Sakhalin still live in a communal 2DK type apartment and also the fact that the number of new rich group of people rapidly increasing, would create a tendency to build more wide space households in near future. In fact, the bulletin board located near the station of Yuzhno Sakhalinsk City which notify the various information on everyday life for the citizens, are full of the real estate information. It is unlikely to assume to see the big boom in housing industry in Sakhalin in near future, however, in the long run, the strong trend is slowly forming for boost in the industry. At least there exist three imminent plans or programs that would initiate the boost in housing industry of Sakhalin.

(2) Environmental Change in Housing Industry

① My Home Plan

In June 1996, the federal government of Russia announced My Home Recommendation Plan (Decision No. 753) to upgrade the quality and quantity of the households in whole Russia. The following are the main points included: Firstly, increase the number of the detached houses or cottages to one third of the total (or even one half in certain area). For instance, the ratio of the detached houses in Sakhalin is only 16% at present. Secondly, utilize lighter and energy efficient construction materials three to four times more. Thirdly, provide low priced households so that the 80% of the households constructed in 2000 will be able to be bought by the average income people. Sakhalin state aim to provide a house with 100 m² to be bought with 16.7 times of the annual income of the average salary worker.

In short this plan aims to recommend cottage-type households (the detached houses located in suburban area for single family use) rather than traditional communal apartment type households, to increase the level of construction technology in building houses, and to provide reasonable price households. In order to pursue this plan the federal government of Russia invested 400 million rubles in 1997. Among which 39 million was distributed to Sakhalin State. With this budget Sakhalin State is currently developing Zima area (28 hector) of the Yuzhno Sakhalinsk City to provide prototype households to the residents. The initial construction would begin by building 47 prefabricated panel houses. This will serve as a model zone for future houses with sufficient provision for earthquakes, not to mention the basic infrastructure like water, gas, electricity, sewerage and so on. The prototype 4 LDK, 2 story house is designed to be built with a total space of 114.25 m². Mebel Group, the local housing company who is progressing this project, expects to construct 150 houses annually with the total cost of 412.64 million ruble (equivalent to 91,393 US dollar) per each.

② American Town

In Sakhalin providing houses as comfortable as Western standard for foreign workers who came to stay in Sakhalin for oil and gas exploitation is another big project. The number of these foreign dwellers in relation with Sakhalin I and II is expected to increase up to over 10,000. The total sum of the expenditure is estimated to

reach about 900 million US dollars. The outline of this American Town project is summarized in Table 7.

TABLE 7 Outline of American Town Projects

Area	Sakhalin I	Sakhalin II	Total
Val	700 person	N/A.	700 person
Katangli	245	N/A.	245
Yuzhno Sakhalinsk	500	500	1,000
Okha	2,500	2,400	4,900
Prigorodnoe	1,400	1,800	3,200
Nogliki	N/A.	500	500
Total	5,345	5,200	10,545
Expenditures	462 million US \$	450 million US \$	912 million US \$

Let us have a look at the planning of this project for Okha area, the biggest housing compound in Sakhalin State. This compound is planning to be developed for 2,500 residents for Sakhalin I (or 625 families) with movie theater, tennis court, soccer ground, shopping center, gymnasium, post office and other necessary public facilities. Two types of the prototype houses would be provided: 4 bedroom type with 163.8 m² and 3 bedroom type with 127 m². Both types would be two story houses with living room, kitchen, bathtub, and basic furniture installed.

Last year (1997) competitive bidding for 500 residents housing compound of Sakhalin II was organized by Sakhalin Energy Co. The successful bid was awarded to Sfera-Iocca, a JV between Russian and US company. The bidding price is 54 million US dollars. The land would be offered by the Russian government as 50-year lease contract. Three types of housing would be constructed: 48 detached houses, 50 hotel type houses and 56 apartment type houses. The detached type houses would be imported in prefabricated manner from US and be assembled in Russia. Construction is expected to be completed by the end of 1999.

The projects to construct these housing compounds for foreign workers (and their families) in Sakhalin are extremely important for the Russian firms. Because quality, price and delivery would be evaluated with global standard with high precision, the tasks are very severe for the local companies who do not have enough experience, technology and skills.

③ Government Subsidy

The State of Sakhalin is introducing subsidies to support the construction of the households needed. The amount of the subsidies would be 364.6 billion rubles to 2,932 families in 1997, 370.4 billion rubles to 4,222 families in 1998 and 439.6 billion rubles to 5,066 families in year 2000. 60% of the total cost in building a house is to be covered by this subsidy and the rest 40% by the resident himself. And 80% of these self-providing portion (=40%) would be covered by the bank loan. But because of the serious economic recession in Russia, only 41 billion rubles were paid in 1997. (Newspaper Sakhalin, Mar. 27 '97)

Another movement of housing construction using these subsidies is construction of the houses for those who lost their houses due to the heavy earthquake that took place in upper northern part of Sakhalin a few years ago. This project is pursued by the negotiated contract between Russian government and Canadian government by withdrawing funds from Canadian banks to build 800 households: 400 in Yuzhno Sakhalinsk and another 400 in Okha. In fact, it is reported that some of the prefabricated houses were imported in Korsakov from Canada in Jan. 1998.

As discussed in detail, the housing industry in Sakhalin is at the turning point to escape from the declining stage to make a genuine development. There are many doubts whether the projects to boost this rapid expansion of the households in Sakhalin as planned above, however, one can conclude that there exist enormous business opportunities for the small and medium sized construction firms in neighboring countries. Especially for the Hokkaido firms, chances are huge for its accessibility. Whether or not the Hokkaido firms can utilize these businesses needs depend upon the seeds they have and the eagerness to take chance.

3. Realization of Economic Cooperation in Sakhalin (A Case of Hokkaido)

It seems that the business needs of housing industry in Sakhalin is a true one, but it is also true that almost all of the Russian firms are unable to meet the demand of higher standard in terms of technology, capital and experience. Fortunately, there are many capable housing manufacturers, general construction companies and other home-related businesses in Hokkaido. Especially housing manufacturers in Hokkaido

are notable for high degree of airtightness and heat insulation in order to endure long cold winter. Also home-related industries such as furniture, heating valve businesses are concentrated in various regions in Hokkaido. (J. Lee, 1998)

(1) Housing Industry and Related Businesses in Hokkaido

Hokkaido has a handicap of severe coldness and heavy snow in winter. Housing manufacturers created unique concept of Northern houses which is completely different from open house concept of Honshu area (or the mainland of Japan). The key words for these original northern type houses are supreme airtightness and heat insulation. Tsuchiya Home, Matsumoto Kenko, and Kinoshiro Taisetsu are some of the successful housing manufacturers in Hokkaido. The president of Kinoshiro, Mr. Yamaguchi defines its business as Life Region Protection to save natural resources and the lives of the people in it. In order to pursue this goal he emphasizes 3Rs(Recycle, Reuse, and Reduce) in corporate strategy. By introducing vertical integration strategy in production process, Kinoshiro succeeded in reducing all kinds of waste and idleness, and thereby able to manufacture comfortable and highly efficient houses, suitable to severe weather of Hokkaido. This technology of highly efficient airtightness and heat insulation is also known to be applied in humid and hot areas of Honshu. As a matter of fact, unit bath developed for high airtightness by Kinoshiro is also sold in Kyushu, the very southern part of Japan. Also, Saijo Sangyo Inc., created J-type Northern panel house by modifying two-by-four technology for prefab of Canada to suit the purpose of higher resistance of wind, snow and earthquake.

Hokkaido is notorious for its quantity of public undertaking operations. According to the Statistics of Japan '96 the investment amounts of public works per capita in Hokkaido is 513 thousand yen, while that of the average in Japan is only 382 thousand yen. Naturally the civil engineering and construction business are considered to be one of the main industry in Hokkaido. Both the number of the firms and the employees hired in this industry outnumber all other industries in Hokkaido. Some of the unique technologies are ceramic blocks, synthetic resins concrete pavement and fly ash civil engineering materials to make fire-proof walls. As far as improvement of dwelling environments is concerned, Hokkaido firms manufacture quality products in areas like home furnishing, floor heating and public utilities. These firms do have sufficient international competence, especially in cold region such as Russia. Among these firms Hikari Gokin Inc., located in Otaru city is notable.

In Hokkaido it is frequently seen that the water pipes are frozen to burst in cold temperature. In order to protect from freezing in winter, it is necessary to drain the water out from the water pipe that is not buried underground. Hikari Gokin develops frozen-free water valves by inventing electrical switch to drain out water automatically below the freezing temperature. Although small sized with less than 200 employees, Hikari Gokin succeeded to penetrate vast area of Hokkaido or 40% of the market share of whole Japan . By using the combination of the 3 key words of cold region, water and valve, this company owns more than 150 patents of related technology during half century of its history.

What you can say in common for these companies is that they have converted the handicaps of cold winter and frequent earthquakes into competitive advantages of creating more durable and comfortable products. But most of these firms, although they have potential of going global(especially in those areas of similar cold weather), are localized firms. If you consider the market to be only a domestic one, it is very restricted. But when you broaden the concepts of northern territories worldwide, you are dealing with one of the biggest market of the globe. Once Hokkaido firms change their narrow perspectives to more generic one, what is going on in Sakhalin really becomes a huge business opportunities for them. Those needs can be met by the current products or technology and know-how that are already accumulated in Hokkaido firms. In order for Hokkaido firms to link successfully those needs of Sakhalin and their seeds, three basic strategic understanding is necessary.

(2) Strategic Minds Necessary for Hokkaido Firms

① First-mover Strategy

Even for the small local firms in Hokkaido, it is impossible to avoid from the wave of globalization. It is an either or choice. Take aggressive actions of going global or just put yourself in a passive position of being globalized instead. But the outcome of this choice is a material one. Let's take a look at the case of Exxon.

As mentioned above, Exxon is a main project operating company for Sakhalin I. The beginning of Sakhalin I goes back in 1968 when Soviet Union and Japanese government decided to jointly develop natural gas in Sakhalin. Upon request by the Soviet government Japanese side organized a consortium called SODECO consisting of both public and private organizations such as Itoh-Chu, Marubeni, Japan Oil

Foundation and Oil Resources Development in 1974. Exxon was invited to join this project in 1993 with two other Russian local firms. Currently Sakhalin I is being carried out by joint effort by three nations: Russia, US and Japan. But the role expected to be played by each nation (or the companies) is dissimilar. For instance, the main role of the two Russian firms is focused on negotiating with the government or translating the business practices to the Western partners. Exxon is actually drilling in the shelves, testing and producing oil and gas. The question is SODECO's role. Drastically speaking, it seems that only Japan money is needed from them, regardless of 20 years of experience or meritorious deeds of bringing in Exxon to move the project in orbit. The strategic positioning of SODECO has to be reestablished.

Even though PSA, one of the biggest obstacles in progressing the project was finally settled in June 1995 and this agreement became effective from June 1996, there remains other problems such as land rights and taxes unsettled. Perhaps, the single most important barrier to overcome is infrastructure inadequacy. Not only the fundamental infrastructures such as highways, railroads, harbors and airport are to be constructed, but also the pipelines, terminal, and other material handling facilities are needed to be installed to carry out the projects. More importantly, the infrastructures concerning living conditions such as housing, sewerage, electricity, banks and telecommunications are desperately needed or improved considerably.

However, Exxon is actively participating in the projects (not only Sakhalin I but also III and IV) unlike Japanese counterparts who are intimidated and are always worrying about all kinds of negative possibilities. The reason for this different behavior comes from perception of the inadequacy of infrastructures of Sakhalin. The very existence of inadequate infrastructures as entry barriers for newcomers is a reason for investments for Exxon in order to grasp the first-mover advantages. This venture spirit is lacking in most Japanese companies who hesitate taking an aggressive business action in this region. When I visited the museum in Yuzhno Sakhalinsk, I was surprised to find out that the city has not been changed much during past 50 years, if not becoming worse. But if you look from other angle, that's exactly why Russian side would be eager to support the project at their best to make things really happen. If oil and gas exploitation progresses successfully and all the necessary infrastructures are adequately provided in Sakhalin, small Hokkaido firms have no chance to compete with the potential gigantic firms who would rush to come to Sakhalin. In this sense, there is not much time left for Hokkaido firms in deciding whether or not to invest in Sakhalin to attain this first-mover advantage.

② Risk Sharing

Even so, it still seems too risky for small sized Hokkaido firms to make a long term investment knowing that it takes for a while (or maybe even several years) for the initial investment to be paid off. More realistic and fruitful solution, therefore, is to find the right partner firms to form strategic alliances. Recently, several small firms in Watkanai established a joint venture for providing construction materials to Sakhalin. Also the shoppers and manufacturers in Sapporo and Otaru area jointly published a catalogue in Russian, Free Paper Gamma and provide a home page in Internet also in Russian. But these movements are very few in number.

In order to flourish these joint action, and thus create risk-sharing benefits, microscopic regionalism or sectionalism has to be abolished. A few years ago there was a severe competition among the cities of Hokkaido to be a candidate for the rear base of Sakhalin projects. Each of the cities like Hakkodate, Muroran, Watkanai, and Otaru claim for themselves to be the most capable base camps to support the foreign workers in Sakhalin. When the author asked to Mr. Blue of Exxon where in Japan he or his people want to spend their holidays, the spontaneous reply was "Idaho." Any of the cities in Hokkaido were unknown. As a matter of fact, it is more logical to think that Singapore or Hong Kong be the better choice for this rear base idea due to the similar life style and language. An important lesson is to get rid of narrow-minded sectionalism and try to cooperate for All- Hokkaido benefits. A package of the distinguished benefits would be much more attractive one than bunch of single, separate proposals from each cities.

Another possibility of joint action for risk sharing is to find the foreign partner firms and together form international strategic alliances. When I was in Sakhalin I was surprised to find out that the most of the commodities sold in the market are made-in Korea and China. If the Hokkaido firms could succeed in finding an appropriate partners in Korea (or in China) in entering Sakhalin, they can not only reduce risks considerably but also be able to present more appealing products and businesses.

③ Avoid Production Efficiency

On the plane to Yuzhno Sakhalinsk from Hakkodate, I was sitting next to a Japanese businessman who frequently makes a business trip to Sakhalin. When asked what is the single most attractiveness in Sakhalin, he replied instantaneously "the fact that

there is nothing.” When you are visiting from Japan where everything is abundant and affluent, you are ought to feel the same way. However, it is doubtful that making an effort to change the situation up to the level of current Japanese living standard would really make the people in Sakhalin happier.

Last decade or two, many Japanese companies rushed to Malaysia, Thailand and other Asian countries to help economic development in the region. As a result many of these countries were succeeded in achieving a rapid economic growth. The reason for this economic success is due to matching of the Japanese (world’s most efficient) production technology and abundant low waged labor forces in Asia. However, recent economic crisis in Indonesia and other neighboring countries cast a doubt to this success myth. Two years ago I paid a visit to Malaysia and Singapore to conduct a research on keiretsu or subcontracting system in automotive and electronic industries of these nations. During the interviews I was astonished to notice that there exists a tremendous perceptual gap between the local workers and the Japanese expatriates. For instance, the local engineers in Proton are confident for their success of dominant market share and future expansion of production volume. They all talk about a bright future full of colorful dream. On the other hand the Japanese engineers and managers from Mitsubishi were very critical to the situation ahead. What causes this perceptual difference is a lack of trust. While the Japanese firms are focused too much on efficiency goals, in the meantime, they neglected the spirit of equal partnership or a joy of working together. After all creating a community bound together by common fate is the origin of thought for the foreign direct investments to occur in the first place.

It is difficult to make a direct comparison between this Malaysian case with that of Sakhalin because of the difference in initial economic development stage. But paradoxically speaking, in case of Sakhalin it becomes truly worthwhile to build from scratch by working together in sweats. After the bubble economy burst, Japanese economy is experiencing the long tunnels of recession without an outlet. In order to break out from this situation it is necessary for the Japanese companies to throw away the past success myth and go back to the origin of the FDI where both Sakhalin and Japan (or Hokkaido) find a way to become happier together.

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